

## HOMEOWNER'S INSURANCE GUIDE

Homeowner's insurance is an expensive purchase for many consumers. This guide provides information on how to make decisions that can lower the cost of your home insurance and increase the value you receive.

Tennessee law does not require homeowners insurance. However, if your home is mortgaged, your lender may require the purchase of insurance on your home.

To get the best value for your money, you must take responsibility for your home insurance purchase and make your own decisions.

The coverage's offered to homeowners are typically contained in a package of liability and property coverages. This Consumer Guide principally addresses the package of coverages found in a homeowner's policy. It does not address the more limited offerings of fire and extended coverage. You may contact our Consumer Insurance Services section for more detail regarding these special conditions.

### WHY BUY HOME INSURANCE?

Owners: to protect both your house and personal property.

Tenants: to protect your furniture and other personal property.

Everyone: protections against liability for accidents that injure other people or damage their property.

### COMMONLY ASKED QUESTIONS

#### HOW MUCH HOME INSURANCE DO I NEED?

Property Protection:

The better your coverage, the less you will have to pay out of your own pocket if disaster strikes.

Self Protection:

You need enough liability coverage to protect yourself from lawsuits resulting from your negligence.

Lender Requirements:

Your lender may require you to cover the house for at least the amount of the mortgage. This may be either too little or too much coverage for your individual circumstances. You are not required to purchase insurance from the insurer recommended by your lender.

Policy Requirements:

Insurers may impose some coverage requirements for replacement cost protection.

#### WHAT AFFECTS HOME INSURANCE PRICES?

Type of Construction:

Frame houses usually cost more to insure than brick.

Age of House:

New homes may qualify for discounts in some states. Some insurance companies either may not insure very old homes or offer a limited form of coverage.

Local Fire Protection:

Your home's distance from a fire hydrant and the quality of your local fire department determine your fire protection class.

Amount of Coverage:

The amount of coverage you buy for your house, contents and personal liability will affect the price you pay.

Deductible Amount:

Your choice of a higher deductible will reduce the price for the home insurance.

Discounts:

Some insurers may offer lower prices for such things as insuring your home and car with the same company and installing deadbolt locks or alarm systems.

## **WHAT DEDUCTIBLE SHOULD I CHOOSE?**

The deductible applies only to coverage on your house and personal property. It is the amount you have to pay out-of-pocket on each claim.

A policy with \$100 deductible will cost more than one with \$250 deductible. Higher deductibles may be available at a reduced price.

## **INSURANCE TERMS EXPLAINED**

### **BASIC COVERAGE AVAILABLE**

Whether you own or rent, there are different packages of home insurance offered to protect your home and belongings.

Each package protects against a specified number of perils. Perils are events that cause damage to property. Three examples are fire, windstorm and theft. In addition to coverage for named perils, each package policy usually contains four additional types of coverage: property damage, additional living expenses, personal liability and medical payments. Home insurance policies apply to most owner occupied single-family homes, and are modified slightly for apartments and condominiums.

### **PROPERTY DAMAGE**

Property damage coverage helps pay for damage to your home and personal property. Other structures such as tool sheds, detached garages, houses and their contents are also covered. You should check with your agent or your insurance company to determine if the amount of coverage on other structures is sufficient.

Personal property is the contents of your home and other personal belongings owned by you or family members who live with you.

Home insurance policies may provide limited coverage for small boats; however, most home insurance policies do not cover motorized vehicles unless they are unlicensed and used only at

your home. Your insurance agent or your insurance company can help you find appropriate coverage for your car, boat, snowmobile or other recreational equipment.

Some forms of personal property, such as, silverware, computers, guns, money, expensive antiques and jewelry, have limited coverage under your homeowner's policy and may need additional insurance. This coverage can be added to your policy as an endorsement.

You can choose to insure your home and belongings for either replacement cost or actual cash value. These terms are explained below.

## **REPLACEMENT COST AND ACTUAL CASH VALUE**

Replacement cost is the amount it would take to replace or rebuild your home or repair damages with materials of similar kind and quality, without deducting for depreciation.

Depreciation is the decrease in home or property value since the time it was built or purchased because of age or wear and tear.

Many insurers require homeowners to insure their homes for at least 80 percent of the replacement cost. If the homeowner fails to insure for at least 80 percent of the replacement cost, a penalty is applied to partial losses. For example, if it would cost \$50,000 to replace your home and it is insured for \$40,000 (80 percent of its replacement value), and a fire causes \$25,000 worth of damage, then your insurance company will pay the full \$25,000.

On the other hand, if your \$50,000 home is insured for \$30,000 (which is less than 80 percent of its replacement value), and you suffer a \$25,000 loss, your company would pay for only part of the loss. You would have to pay the balance out-of-pocket.

As you can see, insuring your home for at least 80 percent of its replacement cost is very important. Check with your agent or insurance company to see what is required. You may wish to insure at 100 percent of replacement cost so you will have sufficient coverage in the event of a total loss.

Actual cash value is the amount it would take to repair or replace damage to your home after depreciation. For example, if your roof has a 20-year warranty and is 17 years old, there would be depreciation for the age and condition of the roof.

Most standard home insurance policies cover the contents of your home (i.e., personal belongings) on an actual cash value basis. Many insurers offer an option for you to insure your belongings at replacement cost. The premium will be slightly higher for this coverage; however, you may want to consider the option.

Whether your home is insured for replacement value or actual cash value, it is important to keep track of its value. For instance, the addition of a room, new insulation and yearly inflation all increase the replacement cost of your home, while the actual cash value of the home may decrease over time.

Check with your insurance agent or company at least once a year to make sure your policy provides adequate coverage.

## **ADDITIONAL LIVING EXPENSES**

Most home insurance policies provide additional living expenses that will pay some expenses if your home is damaged by an insured event to the extent that you cannot live there while repairs are being made, or if you are denied access to your home by government order. These expenses could include limited motel, restaurant and warehouse storage.

## **PERSONAL LIABILITY**

This coverage protects you against a claim or lawsuit resulting from (non-auto and non-business) bodily injury or property damage to others caused by your negligence. This coverage applies to you and all family members who live with you. You should check with your agent or insurance company to determine if the amount of personal liability coverage is sufficient.

## **MEDICAL PAYMENTS**

Regardless of who is at fault, this coverage pays medical expenses for persons accidentally injured on your property by a member of your family or by your pets. Medical payments do not apply to your injuries or those of family members living with you or to activities involving your at-home business. You should check with your agent or insurance company to determine if the amount of medical payments coverage is sufficient.

## **INSURANCE FORMS**

An insurance form is another name for an insurance policy and it specifies what perils your home and belongings are insured against. The following are descriptions of the various insurance forms available for homeowners, renters and condominium owners. Not all insurers use these exact terms to describe their home insurance forms; however, the coverage provided will be similar.

## **HOME INSURANCE**

The five homeowners package forms offered to owners of single family owner occupied homes are HO-1, HO-2, HO-3, HO-3 with HO-15 and HO-8. These policy forms insure your home and belongings against at least 11 named perils. The more perils your policy covers, the more you will pay for the policy.

Basic Form (HO-1) insures your property against the first 11 basic perils in the chart below.

Broad Form (HO-2) covers the 18 perils listed in the chart below.

Kind of Policy							Losses Covered	
DF-1	HO-1 Basic	HO-2 Broad	HO-3 Special	HO-3/ HO-15 Comp.	HO-8		■ Dwelling	■ Contents
								Fire or lightning
								Loss of property removed from premises endangered by fire or other perils
								Windstorm or hail
								Explosion
								Riot or civil commotion
								Aircraft
								Vehicles
								Smoke
								Vandalism and malicious mischief
								Theft
								Breakage of glass constituting a part of the building
								Falling objects
								Weight of ice, snow, sleet
								Collapse of building(s) or any part thereof
								Sudden and accidental tearing apart, cracking, burning, or bulging of a steam or hot water heating system or of appliances for heating water
								Accidental discharge, leakage or overflow of water or steam from within a plumbing, heating or air conditioning system or domestic appliance
								Freezing of plumbing, heating and air-conditioning systems and domestic appliances
								Sudden and accidental damage from artificially generated currents to electrical appliances, devices, fixtures and wiring (TV and radio tubes not included)
								All perils except flood, earthquake, war, nuclear accident and others specified in your policy. Check your policy for a complete listing of perils not covered.

Special Form (HO-3) the most popular of all homeowners' forms, offers a broad range of coverage. This form provides comprehensive coverage on your home and broad named peril coverage on your contents.

Comprehensive Form (HO-3 with HO-15) covers your home and personal property for everything that is not specifically excluded. This policy generally provides the broadest coverage available, but is not offered by all companies. It usually costs more.

Modified Coverage Form (HO-8) is designed to provide package coverage to the owner-occupants of homes that do not meet all the requirements applicable to other homeowners'

forms. The HO-8 provides building and personal property coverage slightly more restrictive than that of other homeowner's forms for owner-occupants that include a replacement cost clause. The HO-8 is particularly well-suited for residences that have suffered extensive depreciation.

Your home may not qualify for one of the five homeowners package policies; therefore, a company may offer you limited coverage on your house. The home and only your home would be covered for damage due to very specific perils or losses.

## **CONDOMINIUM INSURANCE**

Your condominium association should purchase a policy that covers the building, any common walls and grounds, including liability associated with common properties. You have a right to examine the association policy.

To protect your contents and interior walls, you may purchase Unit-Owners Form (HO-6). An individual unit-owner policy is similar to home insurance and renters' insurance.

Condominium Unit-Owners' Form (HO-6) will cover a unit-owner that wishes to insure his or her property or to cover any items not insured by the association's policy. A unit-owner policy will also pay for property damage to personal belongings, wall, floor and ceiling coverings, and any accessories not originally installed in the unit. It also provides personal liability protection.

## **OPTIONAL COVERAGE YOU MAY WISH TO CONSIDER**

### **Guaranteed Replacement Cost Coverage**

Guaranteed replacement cost coverage is the most complete coverage for your home. To obtain this type of coverage, you typically must meet specific underwriting rules and conditions of the company. This may include increasing the amount of your insurance on a monthly, quarterly or yearly basis to keep up with the inflation rate. Check with your insurance agent to determine if an additional premium is required and if there are exclusions or conditions that apply.

### **Inflation Guard Endorsement**

If the replacement cost of your home is increasing with inflation, your policy limits must be periodically increased to maintain your coverage at 80 percent of your home replacement cost, this amount of coverage may not be enough in the future.

To aid you in keeping coverage at an adequate level, some companies offer an "Inflation Guard Endorsement." This endorsement will allow your insurance company to automatically change your policy limit during the policy period. Normally, the higher premium is not paid until the time of renewal.

Even if you have this endorsement on your policy, you should check your coverage limits periodically to make sure you are adequately, but not excessively, insured. Not all companies offer this endorsement, so check with your insurance agent or company if you are interested in purchasing it.

### **Scheduled Personal Property Endorsement**

This endorsement is sometimes called a "personal article floater." A personal article floater

covers possessions such as jewelry, furs, stamps, coins, guns, computers, antiques and other items that may exceed normal limits in your regular home insurance policy. A personal article floater itemizes each article, gives a description of the article insured and lists excluded perils. It often provides coverage that is broader than the coverage granted in the home insurance policy. There is typically no deductible applied to this coverage.

#### Increased Limits on Money and Securities

This endorsement increases the coverage on money, bank notes, securities, deeds, etc.

#### Secondary Residence Premises Endorsement

Homeowners coverage under this endorsement applies to a secondary residence (example: summer home). Remember that these secondary residences are not automatically covered by the home insurance policy on your primary or principal residence.

#### Watercraft Endorsement

Applicable to small sailboats and outboard motor boats, this endorsement broadens personal liability and medical payments coverage on them.

#### Theft Coverage Protection Endorsement

As a result of this endorsement, your theft protection is broadened. The contents of your motor vehicle, trailer or watercraft are covered without proof of forcible entry. This endorsement applies only to forms HO-1, HO-2, HO-3 and HO-4.

#### Credit Card Forgery and Depositors Forgery Coverage Endorsement

Loss, theft or unauthorized use of credit cards (with certain exceptions) is covered by this endorsement. Also covered is the forgery of any check, draft, promissory note, etc., again with certain exceptions. No deductible applies to this endorsement.

#### Flood Insurance

Standard home insurance policies do not cover flood damage. Depending on where your home is located you may qualify for flood insurance through the National Flood Insurance Program. Some insurance companies also offer flood insurance. Your agent or insurance company can assist you with application forms for flood coverage. If your home is located in a flood plain, your lender should require flood insurance. Just because your home is not in a designated flood plain, don't assume you will never incur flood damage. For more information about federal flood insurance, contact the National Flood Insurance Program at 1-800-638-6620.

#### Earthquake Insurance

Earthquake insurance is available through most insurance companies at an additional cost. It is normally issued as an endorsement and attached to your home insurance policy.

#### Windstorm Coverage

Most home insurance policies cover damage caused by windstorm and hail. However, in some areas of certain states, mostly coastal, this coverage is excluded from the standard policy. For more information, ask your insurance agent or insurance company if this peril is covered by your policy.

## SMART SHOPPING

The key to comparison shopping is to know what insurance coverage you need before you start and then to find out how much the coverage will cost from a number of insurers. Comparison shopping takes time but will save you money.

Different companies charge different rates for the same coverage.

No one wants to pay more for their home insurance than they absolutely have to. The only way you can make certain you are not paying too much is to shop around. Find out what different insurers charge for identical products and services.

#### Seek Unbiased Information

Information is available to consumers from a number of unbiased sources. In addition to this department, available sources include public libraries, various consumer groups and consumer publications.

The insurance industry, like many other industries, has developed many words not commonly used by the average person. Consumers may need to find a good glossary or dictionary of insurance terms from the public library.

Consumers may also obtain a wide variety of information by contacting Consumer Insurance Services at 1-800-342-4029.

#### Where to Shop

When you begin to contact insurers, there are a few things you should know about how insurance companies market their products.

Most insurance companies and many agents advertise. Check the newspaper and yellow pages of the telephone directory for companies and agents in your area. In addition, contact your neighbors, relatives and friends for recommendations on insurance companies and agents. Ask them about their experience regarding price and service. In particular ask them what kind of claim service they have received from the companies they recommend.

Consumers often rely on their insurance agent or company to tell them what kind of coverage they need. Insurance agents are paid on a commission basis. Remember, competition only works if the consumer shops for coverage.

#### Price Quotations

When shopping for home insurance, premium quotations are a useful tool for comparison of different companies' products. When asking for price quotations, it is crucial that you provide the same information to each agent or company.

To give you an accurate quote the agent or company will usually request the following information:

- Description of your house
- Distance from the nearest fire department and fire hydrant
- Square footage
- Security devices
- A picture of your home
- The coverage
- Limits you want

This information is necessary to the rating process described earlier.

#### Insurance Marketing Methods

You should understand that not all insurance companies use insurance agents to sell their product. Insurance companies generally use one of three methods to market their product: direct marketing, independent agents or exclusive agents. The type of marketing method may be good or bad for a consumer, depending on the type of services offered. Therefore, consumers should be aware of each of the three methods and may want to consider them in their purchase decision.

Direct marketers sell insurance through the mail and by telephone. In some cases, consumers can save money with direct marketers because these companies do not have to pay insurance agents commissions to sell their policies. Companies can pass along some of these savings to the consumer. However, some consumers prefer to pay an additional premium for the opportunity to have a local agent available to them.

If you decide to call agents for quotations, ask them how many companies they represent. Independent agents represent several companies; therefore, you can get quotes for more than one company from one agent. This is considered an advantage to many consumers.

If you contact an independent agent, be aware that the companies the agent represents are in competition with one another for business. In an effort to encourage the agent to sell their product, companies may compete by offering higher commissions and incentives to the agent. As a result, insurance companies that use independent may have to charge a little extra in order to pay the agent higher commissions. However, this is not always the case.

Some insurance companies sell coverage through agents that only represent their company. These companies call their agents an exclusive agency force. Exclusive agents can only offer you coverage from the company they represent; therefore, you can only get a quote from one company for each exclusive agent that you talk to.

Sometimes exclusive agents may work for a lower rate of commission than independent agents. This is because companies do not have to give the agent an incentive to write their product over another company's product. The lower commission structure, especially on commissions for renewal business, can represent significant cost savings to the insurance company and often a portion of that savings is passed along to the consumer in lower premiums.

#### For Your Protection

Once you have selected the insurance coverages you need and an insurance agent or company, there are steps you can take to make certain you get your money's worth.

Before signing an application for any insurance coverage, call Consumer Insurance Services at 1-800-342-4029 and verify that the company and agent you are dealing with are licensed in Tennessee. It is illegal for unlicensed insurers to sell insurance. Business cards are not proof of a licensed insurance agent or company. If you do business with an unlicensed agent or company, you have no guarantee that the coverage you pay for will ever be honored. If you purchase insurance from companies not legally doing business in Tennessee, you may not be protected by the guaranty fund should the company fail.

If you are contacted by an unlicensed insurance agent or company, contact Consumer Insurance Services at 1-800-342-4029, immediately, so that regulatory action can be taken. By doing so, you may protect someone less knowledgeable than yourself from being victimized.

You should be aware that a home insurance policy is a legal contract. It is written so that your rights and responsibilities as well as those of the insurance company are clearly stated. When you purchase home insurance, you will receive a policy. You should read that policy and make certain you understand its contents. If you have questions about your insurance policy, contact your insurance agent or company for clarification. Keep your policy in a safe place and know the

name of your insurer. If you still have questions, contact Consumer Insurance Services at 1-800-342-4029.

The Tennessee Department of Commerce & Insurance is here to serve the consumers of Tennessee. Our Insurance Division can be a source of unbiased information and assistance to you when shopping for your insurance needs.

If you have a complaint against an insurer, it is always best to contact your insurance company first to attempt to settle the matter. Most insurance companies have policyholder service offices set up precisely to handle such questions. If you still are not satisfied, contact this department. We have complaint investigators in our Consumer Insurance Services section to assist you with your concerns. Although they cannot represent you legally against an insurance company or adjuster, they can make appropriate investigation into potential violations of insurance laws or regulations based upon your complaint.

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